

## TRANSFORMING TO A COST- MANAGEMENT CULTURE

BY

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USAWC STRATEGY RESEARCH PROJECT

**TRANSFORMING TO A COST-MANAGEMENT CULTURE**

by

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## **ABSTRACT**

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One of the major issues the Army faces is the continuous erosion of resources to invest in and sustain its warfighting capabilities. Defense leaders clearly understand the significance of fiscal resources; however, for the last four years, the Department of Army has relied on billions of dollars in supplemental spending to meet the needs of the warfighter. But eventually Congress will refuse to approve such non-scheduled allocations. The Army's failure to take proactive actions may lead to insufficient funding to sustain our Soldiers and their families, to maintain our facilities and equipment, to train our units for war, and to fund critical investment programs that will sustain our military as a decisive national power. Accordingly, Army leaders must become more cost-conscious when expending our nation's treasure. This SRP examines the Army's efforts to transform from an entitlements mindset – "Accomplish the mission at any cost" – to a cost-management culture: "Accomplish the mission cost-effectively." It describes change-management methods and considers ways the Army should proceed with its cost-management transformation. It provides recommendations along with warnings about the institutional resistance to complex transformation.





## TRANSFORMING TO A COST-MANAGEMENT CULTURE

Integral to achieving our goals is the development of an Army-wide cost-management culture in which leaders better understand the full cost of the capabilities they use and provide and incorporate cost considerations into their planning and decision-making.

—2008 Army Posture Statement<sup>1</sup>

This SRP examines recent and projected efforts to transform the Army from an entitlement-minded culture into a cost-management culture that considers the impacts of rising costs and declining resources needed to keep the Army ready and relevant. It proposes procedures for implementing this cost-management transformation are proposed. It concludes with recommendations to implement this strategy that are supported by expert opinion and documented lessons learned from similar transformation efforts. Transforming to a cost-management culture is difficult, but critical to the Army's increasing need to effectively and efficiently manage its declining fiscal resources. The Army must have a clear, well-planned strategy to transform from an entitlements-based organization to a cost-management culture.

One of the major issues we face as Army senior leaders is the continuous erosion of financial resources to invest in and sustain our warfighting capabilities. Senior defense leaders clearly understand that financial resources are a critical element of the national military strategy. However, for the past four years, the Department of Army has relied on billions of dollars in supplemental spending to meet the needs of the warfighter. These supplemental appropriations will not continue indefinitely. Indeed our Army is already operating in an environment of constrained and dwindling resources, so our leaders must ensure the effective and efficient allocation and expenditure of this precious supplemental reserve. If we fail, we will soon have insufficient funding to

sustain our Soldiers and their families, to maintain our facilities and equipment, to train our units for war, and to fund critical investment programs to sustain our military into the future as a decisive national power.

We must develop a transition plan to move supplemental funding into our baseline budgets. Senior leaders must be intimately involved in this critical, systematic process and facilitate cultural changes within an organization needs much fiscal support to protect the nation's security. As this SRP epigraph clearly states, one of the key changes needed in Army culture is the "development of an Army-wide cost-management culture."<sup>2</sup> The Honorable Nelson M. Ford says it best: "We must bring a new perspective to the way we manage resources. We must, in essence, change the very way we think about money."<sup>3</sup>

"Cost" is a familiar verbal motif in Army guidance and directives regarding the management of perennially "scarce" fiscal resources. Every Army posture statement dating back to 1997 contains references to "cost"; however, these references address reducing costs; or the impact of increasing costs; or cost savings; or emerging costs related to the acquisitions of war materials; to name a few.<sup>4</sup> These references are merely byproducts of numerous other change management and process improvement programs. In no instance does a posture statement provide clear strategic guidance or direction on how to manage direct and indirect costs for long-term investments or for day-to-day operations. There are no directives mandating transformation of Army fiscal processes or guidance to develop a long-term strategy to transform from an entitlements-based organization to a cost-management culture. Similarly, cost management is not a new concept; it has been included in our operational jargon for

years. Every Army Posture statement since 1997, as noted, addresses cost management. In addition, hundreds of Government Accountability Office (GAO) reports address cost management as a critical consideration and concern in managing the myriad of governmental contracts and programs.<sup>5</sup>

However, in all of this mention of fiscal issues, we find little or no references to cost-management culture. Culture is defined as “shared beliefs and values of group: the beliefs, customs, practices, and social behavior of a particular nation or group of people.”<sup>6</sup> Thus culture is the essence of this transformation, which seeks to change the way people think and believe as they manage our nation’s treasure. Just recently the Army has begun transforming its financial management mindset by attempting to merge cost and cost management into the military culture. The 2008 Army Posture Statement briefly identifies the need to reduce waste and gain efficiencies to better control financial resources for higher priority requirements. Further, as the epigraph indicates, we need to develop a cost-management culture throughout our institutional Army.<sup>7</sup> But we lack a clear vision or strategy to get us from here to there. Significantly, the Assistant Secretary of the Army for Financial Management and Comptroller (ASA [FM&C]), recently declared that “adopting a cost culture within the Army” is the highest strategic priority.<sup>8</sup> If this calls for a cultural change within the Army – and it does – what is the plan? What is the strategy? We have no clear mission statement or commander’s intent to include the effective and efficient use of our financial resources in a transformed Army culture. Lip service alone will not foster change; without clear, well-defined direction, cultural change will not be forthcoming. To transform the Army way of thinking

to a cost-management culture, Army leaders must use a more defined and better-communicated approach to leading this change.

Transforming to a cost-management culture requires a clear strategy that makes effective use of capital (human, material, fiscal, technology, etc.), that is based on an effective strategic communications plan, and that makes effective use of ways and means to achieve the desired end state. Such a strategy will not only establish a foundation and impetus for the change, but it will delineate a clear process that can be measured at every juncture. Numerous published strategies provide a wide range of methods to lead and manage organizational change. The 2006 Army Process Improvement Criteria (APIC) is a great tool for assessing and leading change within an existing organizational culture. However, it only “provides a framework for in-depth organizational assessment and measurement of continuous improvement efforts.”<sup>9</sup> So this concept is narrowly focused at the installation management level and does not consider the impacts on the Army as a whole. The APIC does not provide a clear, manageable framework that strategic leaders need for changing such a complex culture as the Army’s. Dale R. Geiger’s *Winning the Cost War* provides useful insight into change management within a preexisting cost-management culture. Geiger describes management techniques for “applying battlefield management doctrine to the management of government.”<sup>10</sup> He recommends excellent ways for leaders to implement and manage change within their respective organizations, but he does not offer a transitional process or fundamental approach to transform an organization’s deep culture, especially in the area of cost-management. He describes methods to manage current, cost-cultural challenges within government organizations. Both the

APIC and Geiger offer worthwhile considerations for implementing change within an existing cost-management culture, but both assume that cost-management is already a cultural norm. When considering non-governmental organizations, there are hundreds of courses, articles and books that provide lessons learned and useful change management techniques. For example, the *Strategy+Business* magazine published an article: “10 Principles to Change Management.”<sup>11</sup> These principles outline actions required to facilitate change within an organization. It provides sound principles for implementing change, but provides limited details and no clear structure/process to properly management change. Additionally, it lacks recommendations when dealing with pitfalls and how to overcome these hazards without disrupting the overall process. So the Army needs a more radical approach for implementing cultural changes of this magnitude. An Army senior leader once wryly observed, “If you want me to cut costs, I will just cut your budget.” This is a solution, but not necessarily the right solution for managing costs efficiently. It also demonstrates how extremely difficult it will be to change this kind of cultural mindset—entitlement-based rather than cost-conscious.

John Kotter’s book *Leading Change* provides an excellent framework for developing and managing a change management program. Numerous successful corporations have used Kotter’s framework to manage their organizations through complex change. The U.S. Army War College, the Army’s premier strategic leadership school, teaches Kotter’s principles as part of their strategic leadership course. His framework provides strategic leaders with useful tools to manage change within the U.S. Army enterprise. When compared to other governmental and non-governmental strategies, Kotter’s strategy has some similarities, but provides a more refined, proven

strategy that has been emulated by many organizations. His approach starts at the grassroots of an organization. He analyses the challenges of leading cultural changes and emphasizes the vital role of leadership in a successful effort to change a culture positively. He describes a methodical, long-term approach to solving the issues; he advocates proactive leadership compared to crisis-management leadership, which has been the traditional approach of governmental leaders. Linda Burgess, CEO of The Burgess Group, claims that Kotter's, "Leading Change provides a detailed road map, complete with caution signs pointing out potential dangers. If this book persuades change leaders to complete all the steps and to do so in sequence, it will contribute to improved performance in their organizations."<sup>12</sup> Kotter's "eight-stage process of creating major change and its associated pitfalls specify the actions needed to cultivate a successful cultural transformation (Figure 1).<sup>13</sup> Kotter emphasizes the importance of enacting these eight steps in sequence: "Skipping even a single step or getting too far ahead without a solid base almost creates problems."<sup>14</sup>

<p style="text-align: center;"><u><b>The Eight-Stage Process of Creating Major Change</b></u>  While Avoiding the Eight Errors Common to Organizational Change Efforts</p>	
<b>Advice for avoiding common errors to organizational change</b>	<b>Implications</b>
Error #1: Allowing too much complacency  <b>1. Establish a sense of urgency</b> <ul style="list-style-type: none"> <li>Identify and discuss crises, potential crises, or major opportunities</li> <li>Examine the market and competitive realities</li> </ul>	All employees must feel a sense of urgency at the beginning of a transformation in order to motivate them to give extra effort, make needed sacrifices.
Error #2: Failing to create a sufficiently powerful coalition  <b>1. Create the guiding coalition</b> <ul style="list-style-type: none"> <li>Put together a group with enough power to lead the change</li> <li>Get the group to work together like a team</li> </ul>	Coalesce department members with the titles, information and expertise, reputations, relationships and capacity for leadership.
Error #3: Underestimating the power of vision  <b>2. Develop a vision and a strategy</b> <ul style="list-style-type: none"> <li>Create a vision to help direct the change effort</li> <li>Develop strategies for achieving that vision</li> </ul>	Communicate a <u>clear, compelling, sound, and sensible</u> vision to direct, align, and inspire action.
Error #4: Under communicating the vision by a factor of 10 or 100 or even 1000  <b>3. Communicate the change vision</b> <ul style="list-style-type: none"> <li>Use every vehicle possible to constantly communicate the new vision and strategies</li> <li>Have the guiding coalition role model the behavior expected of employees</li> </ul>	Communicate that the change vision is <u>attractive</u> and <u>possible</u> . <ul style="list-style-type: none"> <li>Say it often</li> <li>Have many people say it</li> <li><u>Hold visible, important (see 2 above) people accountable to act it</u></li> </ul> Coalition must act consistently with the verbally communicated vision
Error #5: Permitting obstacles to block the new vision  <b>4. Empower broad-based action</b> <ul style="list-style-type: none"> <li>Get rid of obstacles</li> <li>Change systems or structures that undermine the change vision</li> <li>Encourage risk taking and nontraditional ideas, activities, and actions</li> </ul>	Assure that supervisors help employees to identify and overcome true obstacles. Especially assure that supervisors themselves are adapting to new circumstances, and not undermining change and disempowering their employees.
Error #6: Failing to create short-term wins  <b>5. Generate short-term wins</b> <ul style="list-style-type: none"> <li>Plan for visible improvements in performance, or "wins"</li> <li>Create those wins</li> <li>Visibly recognize and reward people who made the wins possible</li> </ul>	Real transformation takes time. Therefore, <u>create</u> , don't hope for, short-term wins based on short-term goals, and <u>celebrate</u> . Managers must actively look for ways to: <ul style="list-style-type: none"> <li>obtain clear performance improvements</li> <li>establish goals within the yearly planning system</li> <li>achieve these objectives</li> <li>reward the people involved with recognition, promotions, or money.</li> </ul> Being forced to produce short-term wins can be a useful element in the change process.
Error #7: Declaring victory too soon  <b>6. Consolidate gains and produce more change</b> <ul style="list-style-type: none"> <li>Use increased credibility to change all systems, structures, and policies that don't fit together and don't fit the transformation vision</li> <li>Hire, promote, and develop people who can implement the change vision</li> <li>Reinvigorate the process with new projects, themes, and change agents</li> </ul>	Cultural change can take 3 to 10 years, and until it is complete, new approaches are fragile and subject to regression. Therefore, don't declare victory too quickly. Don't go overboard with enthusiasm when you see progress. Resisters can be quick to spot an opportunity to undermine the effort. Change can come to a halt and previous, irrelevant, traditions can creep back in.
Error #8: Neglecting to anchor changes firmly in the corporate culture  <b>7. Anchor new approaches in the culture</b> <ul style="list-style-type: none"> <li>Create better performance through customer- and productivity-oriented behavior, more and better leadership, and more effective management</li> <li>Articulate the connections between new behaviors and organizational success</li> <li>Develop means to ensure leadership development and succession</li> </ul>	Consciously demonstrate how specific behaviors and attitudes have helped improve performance.  Assure that promotion criteria are reshaped to reward behavior that is consistent with the new culture.

Figure 1. From *Leading Change*, by John P. Kotter.<sup>15</sup>



### “A Sense of Urgency”

Over the past two decades, the Army has faced many challenges resulting from cuts in federal spending for military requirements. A “desire for a post conflict ‘peace dividend,’ revolts by taxpayers, and limits to federal borrowing combined to cause a major reduction in funding levels for many organizations. Lower resource levels posed a significant threat to the ability of these organizations to accomplish their missions.”<sup>16</sup>

Figure 2 illustrates the trend since WWII in the reduction of defense spending immediately following major conflicts. However, defense spending has expanded considerably since 1998. In constant dollars (FY2000), defense spending has gone from \$282 billion in 1998 to an estimated \$600 billion in FY2009.<sup>17</sup> Despite this growth in defense spending since 1998 and the significant growth in the U.S. economy as a whole, the DOD budget has decreased by ten percent since the Korean War as a percentage of the Gross Domestic Product (GDP).<sup>18</sup> This is a significant reduction. Furthermore, considering the current state of the economy and the challenges faced by President-elect Obama and his new administration, this trend is likely to continue. It will affect the Army dramatically. “Five times in the last 90 years, the United States has disarmed after conflict... testified Defense Secretary Robert Gates on Capitol Hill in March. Will Iraq make six?”<sup>19</sup> John Murtha (D-Pa) Chairman of the House Appropriations defense subcommittee believes it will: “The American people are entitled to a new peace dividend.”<sup>20</sup> Dating back to 1992, the Clinton administration, supported by Congress, imposed significant reductions in defense spending that dramatically reduced the Army’s end strength in human capital and equipment programs; these cutbacks almost killed the modernization of weapon systems programs for an entire generation.<sup>21</sup> President Obama has stated in several of his speeches that his

administration will “focus on lowering costs, while enhancing effectiveness through increased efficiency of programs and services.” History has proven that “peace dividends” follow conflict termination, so the post-Iraq dividend seems quite probable, especially with the incoming administration. Acting Pentagon Comptroller Douglas Brooks recently observed that, “Defense spending is often seen by incoming administrations as a place where savings can be found and cuts can be made.”<sup>22</sup> Historical trends and recent claims by political and senior military leaders should foster a greater sense of urgency on the Army’s part to transform to a fiscally responsive, cost-management culture. “Those who do not learn from history are doomed to repeat it”—this conventional platitude certainly applies to forthcoming defense spending.

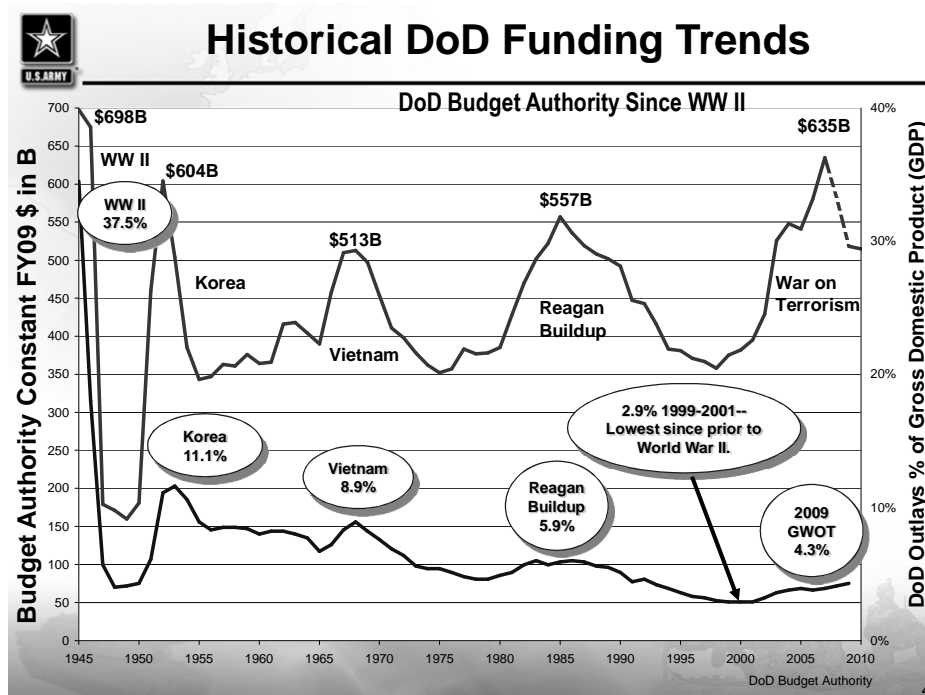


Figure 2. Historical DOD Funding Trends: Budget Authority since WWII<sup>23</sup>

Significantly, but not urgently, the Secretary of the Army declared in 2004, “In developing a cost culture, the Army must change how we think about our money. Our

people must understand why they should care about preserving, protecting and defending every dollar that the U.S. Army receives from the American taxpayer.”<sup>24</sup> Good advice, but it has not prompted a quick and widespread institutional response. “Establishing a sense of urgency is crucial to gaining needed cooperation.”<sup>25</sup> This is the most critical factor for transforming to a cost-management culture: Senior leaders must gain buy-in from leaders and managers at every level. Despite historical trends and the current political environment, the Army has become somewhat lackadaisical in its management of financial resources. Over the last several years, appropriated funding has been sufficient to resource most critical requirements including emerging requirements. Only dynamic leadership can generate a sense of urgency in an organizational environment characterized by “too many visible resources; the absence of a major and visible crisis; human nature, with its capacity for denial, especially if people are already busy or stressed; to name a few.”<sup>26</sup> This plain truth is “that government organizations have not managed cost well simple because they didn’t have to manage cost well.”<sup>27</sup>

This complacency must change as we anticipate inevitable declines in funding, political uncertainty, and the drawdown of combat operations.<sup>28</sup> Leaders must anticipate the impacts – loss of capability, deteriorating infrastructure, elimination of Soldier and family programs, etc. The best way to convey the urgency of the issue is through strong strategic guidance and directives and through an effective communications plan. Under Secretary of the Army Nelson Ford has published a relevant series of articles in numerous financial management periodicals. This is a start, but these articles only address the resource management community. Leaders from the Secretary of the Army

down must communicate an austere cost-management vision and strategy through periodicals, public presentations, and policies. Additionally, the Army must inject cost-management training into its senior leader and manager education and training programs. From the strategic down to the tactical leadership levels, the Army must develop effective communication and training programs that depict the potential crisis and the urgency of the issue at hand. Complacency can be overcome by developing a strategy and campaign plan that employ Kotter's "ways to raise the urgency level":

1. Create a crisis by allowing financial pressures.
2. Eliminate obvious examples of excess.
3. Set revenue, income, productivity, customer satisfaction and cycle-time targets so high that they can't be reached by conducting business as usual.
4. Stop measuring subunit performance based only on narrow functional goals. Insist that more people be held accountable for broader measures of business performance.
5. Send more data about customer satisfaction and financial performance to more employees, especially information that demonstrates weaknesses in comparison with the competition (those competing for resources).
6. Insist that people talk regularly to unsatisfied customers, unhappy suppliers, and disgruntled shareholders.
7. Use consultants and other means to force more relevant data and honest discussion into management meetings.
8. Put more honest discussions of the organization's problems in organizational newspapers and senior leader/management speeches. Stop senior leader "happy talk."
9. Bombard people with information on future opportunities, on the wonderful rewards for capitalizing on those opportunities, and on the organization's current inability to pursue those opportunities.<sup>29</sup>

"Cost war, like armed conflict, is not won by the actions of leadership alone. Both require a process and culture that energizes the coordinated efforts of the entire

organization.”<sup>30</sup> Urgency must overcome human and organizational tendencies to deny certain harsh realities. “Regardless of how the process is started or by whom...most organizations find it difficult to make much progress of a major change effort unless most leaders honestly believe that the status quo is unacceptable.”<sup>31</sup> Kotter suggests viable ways for creating an organizational sense of urgency, a common ground of understanding, standards, and the expectations needed to build an energized coalition to the cause.

#### “The Guiding Coalition”

Every major organizational change or transformation must have “one highly visible individual”<sup>32</sup> leading as the “Change Champion.” To transform the Army to a cost-management culture, the Change Champion should be the Secretary of the Army. He may delegate the day-to-day work to an under or assistant secretary. But, he must lead the change. Financial resources are so critical to success in a capabilities-based organization, the organizations chief executive should be the one most visible and the one delivering the message. The Army excels at building coalitions while ensuring unity of command and effort. Such endeavors are executed extremely well throughout combat operations and within the force generation structure. For example, “General Order #3 assigns functions and responsibilities to organizations in Headquarters, Department of the Army. Though still in revision, the order is predicted to guide the Army Enterprise...and will support the Army's transformation.”<sup>33</sup> In July 2008, the Secretary of the Army appointed Lieutenant General (LTG) Robert Durbin as the Special Assistant to the Army Chief of Staff for Enterprise Management. He will lead the Army's Enterprise Task Force (ETF). Their challenge “is to adapt our institutions to

cement the transformation of the Army of the 21<sup>st</sup> Century.”<sup>34</sup> LTG Durbin is the appointed “change champion” enabled by the visible and documented support of the Secretary of the Army. The Enterprise Task Force has a published charter endorsed by the two most senior Army leaders; the charter provides guidance and direction for Army transformation. These Enterprise efforts thus provide Army transformation with a change champion (LTG Durbin), documented responsibilities and authorities he needs to lead change, and the leadership support necessary to influence cultural changes. This effort is further supported and directed by the Secretary of Defense. In accordance with the Fiscal Year 2008 National Defense Authorization Act, the Secretary of Defense appointed the Undersecretary of the Army as the Chief Management Officer (CMO) responsible for the oversight of the ETF.<sup>35</sup> These types of leadership involvement and directives, along with supporting tools, are necessary to transform the Army to a cost-management culture. However, no single individual can pilot this transformation alone; a coalition focused on nurturing the cultural change is the best approach.

The challenges to building a cost-management coalition is that “transformation is a ‘people issue’ not an accounting issue.”<sup>36</sup> The major problem is that most people have little experience in cost management; they already have a daunting number of responsibilities; and they have little time for the necessary training and development.<sup>37</sup> Therefore, in concert with the authorities under the Enterprise Task Force and the Army CMO, the Army Financial Management community is best suited for the job; they have the requisite analytical capability, expertise, credibility, knowledge of the operations, and management/leadership skills. Most organizations from the brigade combat team and above have a financial manager or financial team imbedded within their hierarchy to

help foster this type of cultural change. The Army leadership needs to place special emphasis on developing and training this community and its individuals to institute the cost-management coalition. They will carry this message to the leaders within their respective organizations. Additionally, they have the authority as commanders and comptrollers to overcome internal roadblocks and thereby facilitate the transition. Geiger recommends building a staff organization of “Cost Culture Officers” to guide the command. These officers would coordinate and synchronize their efforts through a separate “Cost Culture Team” hierarchy.<sup>38</sup> ASA [FM&C] is still developing and socializing this concept. No matter what structure evolves, financial managers are best suited for the cost-management coalition. Ultimately, the overarching commander makes the decisions, but the financial leader can professionally influence these decisions to ensure that the commander has complete “buy-in” to the changes needed. Nelson Ford has done a good job of communicating the objective and developing the financial management coalition. However, the Army’s vision and strategy must clarify cost management goals and promulgate them to all senior leaders across the Army.

#### “Developing and Communicating a Change Vision and Strategy”

“Strategy without tactics is the slowest route to victory. Tactics without strategy is the noise before defeat.”<sup>39</sup> Sun Tzu had it right, even over two thousand years ago. Without a clear vision and strategy, any major change is destined for failure. “*Vision* refers to a picture of the future with some implicit or explicit commentary on why people should strive to create that future.”<sup>40</sup> Kotter specifies these characteristics essential to successful visions of change:

First, by clarifying the general direction for change ‘we need to be south of here in a few years instead where we are today,’ it simplifies hundreds or thousands of more detailed decisions. Second, motivates people to take action in the right direction, even if the initial steps are personally painful. Third, helps coordinate the actions of different people, even thousands and thousands of individuals, in a remarkably fast and efficient way.<sup>41</sup>

Unfortunately, Army transformation to a cost-management culture has no such clear vision or strategy at the highest level. This lack of vision and overarching strategy makes it extremely difficult, if not impossible, for leaders to understand the ends, ways, and means to achieving the needed change. For example, the financial management vision declares, “We are a world class organization committed to providing quality Financial Management to support the Global War on Terrorism and across the full spectrum of operations.”<sup>42</sup> Likewise, the ASA [FM&C]’s mission statement “is to formulate, submit, and defend the Army budget to Congress and the American people; oversee the proper and effective use of appropriated resources to accomplish the Army’s assigned missions; provide timely, accurate, and reliable financial information to enable leaders and managers to incorporate cost considerations into their decision-making; provide transparent reporting to Congress and the American people on the use of appropriated resources and the achievement of established Army-wide objectives; and manage and coordinate programs for the accession, training, and professional development of Army resource managers.”<sup>43</sup> Although “cost” is mentioned in the mission statement, these broad vision and mission statements to a cost-management culture provides no guidance on the general direction of the change. Likewise, this bland specification of tasks does not motivate people to take action. Finally, it focuses only on the financial management community, not all Army leaders.<sup>44</sup> The vision must be feasible, clear (like a bumper sticker), and directed toward the needed change. It must



be “imaginable, desirable, feasible, focused, flexible, and communicable.”<sup>45</sup> The Change Champion, along with his or her coalition, must develop an overarching vision that all can understand and aspire to. The Army must develop a logical, concise, and detailed strategy that indicates how to enact the change vision to a cost-management culture. Once the vision and strategy are ready for primetime, the leadership must communicate it throughout the organization.

“A great vision [and strategy] can serve a useful purpose even if it is understood by just a few key people. But the real power of a vision is unleashed only when most of those involved in an enterprise or activity have a common understanding of its goals and direction.”<sup>46</sup> Kotter then cites seven key elements that are essential to communicating a vision.<sup>47</sup> However, the Department of Defense (DOD) has recently published guidance that outlines nine principles of strategic communications that provide a much more familiar, commonly understood framework for the military.<sup>48</sup> These principles are similar to Kotter’s key elements; however, DOD’s principles provide a much more refined definition of each principle in terms that are generally understood by DOD civilian and military leaders. The guidance presents an integrated, joint perspective and a common understanding that senior leaders can use as a tool to help communicate a vision throughout the organization. This shared vision will aid in fostering change including transforming to a cost-management culture. As stated earlier, once a clear vision is developed and a supporting strategy devised, senior leaders must have a strategic communications plan to cultivate change. The DOD describes strategic communications “as an orchestration and/or synchronization of actions, images, and words to achieve a desired effect.”<sup>49</sup> The following nine principles

provided are designed to “assist in dialogue and promote understanding” when developing and executing a strategic communications plan:

**Leadership-Driven.** Leaders must decisively engage and drive the strategic communications process.

**Credible.** Perception of truthfulness and respect between all parties.

**Understanding.** Deep comprehension of attitudes, cultures, identities, behavior, history, perspectives, and social systems. What we say, do, or show, may not be what others hear or see.

**Dialogue.** Multi-faceted exchange of ideas to promote understanding and build relationship.

**Pervasive.** Every action, image and word sends a message.

**Unity of Effort.** Integrated and coordinated, vertically and horizontally.

**Results-Based.** Actions to achieve specific outcomes in pursuit of a well-articulated end state.

**Responsive.** Right audience, right message, right time, and right place.

**Continuous.** Diligent ongoing research, analysis, planning, execution, and assessment that feeds planning and action.<sup>50</sup>

Wal-Mart, Toyota, and other successful companies emphasize some of these principles when managing change within their industries. All of them concur that an essential contributor to the change process is “ongoing executive engagement.”<sup>51</sup> That is, leaders drive change: “Every successful...corporate transformation we’ve been involved in was strictly dependent on top executives support the initiative and having a corporate-level Champion to lead and coordinate the effort.”<sup>52</sup> DOD communications principles and lessons learned from other large organizations, like Wal-Mart, to guide communication strategy can help any organization to communicate its change vision and strategy. If we do not communicate effectively or if our communications strategy fails, the

transformation to a cost-management culture will fail. Bottom-line: communication of the change vision is critical to change management and sustainment.

However, even with the right “Change Champion,” a strong coalition, a properly communicated vision, and a sound strategy, leaders must have the authority and flexibility to employ change. “If people don’t accept a vision, the next two steps in the transformation process—empowering individuals for broad-based action and creating short-term wins—will fail. Employees will neither take advantage of their empowerment nor put in the effort for guaranteed wins.”<sup>53</sup>

#### “Empowering Broad-based Action”

As for any type of change, people need to be empowered to take the necessary actions within their organizations to translate the vision into reality. This is particularly important when transforming to a cost management culture. Kotter identifies four obstacles that diminish people empowerment – structures, skills, systems, and supervisors.<sup>54</sup> The Army has always empowered its leaders to make changes necessary to achieve mission accomplishment, so this barrier is not a very formidable in Army culture. The financial management (FM) community operates within a very hierarchical *structure*, but its leaders have always had the ability to modify their structures to meet mission demands. FM leaders function within a doctrinal organization structure; they are resourced with human capital to perform those leader/subordinate duties according to doctrine. However, as leaders, they are empowered to move personnel within the organization to address the complexities of any situation. They may have the same number of personnel, but these personnel can be assigned or reallocated to perform other duties and responsibilities as the situation dictates. For example, within a

peacetime structure a cashier may be performing duties as an office administrator because there is no requirement for a cashier in a garrison. Conversely, within a wartime posture, cashiers are in high demand to perform various financial management obligations and have no time to perform administrative tasks. Within a cost-management culture, the ability to restructure with requisite human capital has significant merit in facilitating change. ASA [FM&C] recommends the addition of Cost Culture Officers (CCO) into the installation management hierarchy. This would provide cost management capability within specific organizations and form a technical chain throughout the Army's installation management structure that would communicate cost issues and report performance and compliance to the most senior leaders in the Army. These CCOs would facilitate building cost-capable teams within their organizations, nurture the transformation, provide subject matter expertise, and develop and encourage cost management initiatives.<sup>55</sup> Business corporations use a similar tactic to carry out complex change. For example, Integration Champions or Managers are embedded within the corporation to facilitate complex mergers and acquisitions.<sup>56</sup> However, in both situations, selection of the right people with the right skills is the key to success.

Very few people within the Army possess honed, cost-management *skills*. The FM community needs to expand recruiting efforts to corporate America in an effort to obtain these skills either through consulting arrangements, non-personal services contracts, and/or direct hiring actions. The Defense Finance and Accounting Service (DFAS), the DOD's finance and accounting firm, may serve as a recruiting pool for skilled accountants with cost-management experience. Cost management is deeply

entrenched in corporate cultures because corporations provide goods or services at the lowest possible price to generate the highest possible profits. Cost managers and accountants in corporate America should be recruited into a newly cost-conscious Army.

While we are expanding our recruiting efforts, we must expand our FM military and civilian training to include cost management and cost accounting. These skills are necessary to effectively implement and manage this type of cultural change. The office of the Assistant Secretary of the Army for Financial Management and Comptroller (ASA [FM&C]) is developing new business-focused courses for executives, operational leaders, and resource managers.<sup>57</sup> The Army's Financial Management School has recently proposed adding cost management as a core competency; it is also planning to add cost management to future doctrine revisions. If this proposal is approved, the school will inject additional training to further the expertise of financial manager in the area of cost-management.<sup>58</sup> Additionally, this Army school has integrated activity-based costing and cost and economic analysis into the Planning, Programming, Budgeting, and Execution Course (PPBES).<sup>59</sup> Other DOD training pertinent to transforming the culture is Lean Six Sigma training, the Navy Corporate Business Course, and the Executive Business Course. They all provide valuable training needed to facilitate this very complex, paradigm shift. These types of training and initiatives are truly a step in the right direction, especially if FM leaders are provided the right tools to provide quality cost management training and education.

Accounting systems currently do not provide effective tools for executing a cost-management program. However, the Army has developed and will soon field the

General Fund Enterprise Business System (GFEBS). This cost-management system will provide “reliable and accurate cost information and make the information available to all users in real-time.”<sup>60</sup> This tool will provide leaders the necessary information to make well-informed financial management decisions. This type of financial/cost management system is long overdue; it will certainly support transformation to a cost-management culture. However, the DOD has a history of a few successes and several failures when designing, developing, and fielding financial management systems. The Defense Travel System is one of the few success stories; it has proved its worth throughout DOD by reducing processing costs and increasing efficiency. On the other hand, the Defense Integrated Military Human Resource System has been in development since 1996. This system was designed to replace numerous outdated personnel and finance legacy systems. After numerous delays and large cost overruns, the system is still not operational. Another Army cost management initiative that met with limited success is Activity Based Costing (ABC): “ABC is a method for developing cost estimates in which the project is subdivided into discrete, quantifiable activities or work units. The activity must be definable where productivity can be measured.”<sup>61</sup> The reason for this limited success is the “current legacy financial system(s) do not have the capability to support accurate and timely capturing and reporting of costs.”<sup>62</sup> ABC relied on legacy systems, but GFEBS will not. It is a costing system in and of itself; it contains the resident, required data and reporting structure. This mention of historic system failures is not intended to question the future of GFEBS. Past failures simply illustrate the importance of fielding the right system with the right capabilities. It appears that the Army has learned from these past failures as it forges the way ahead with GFEBS.

Initially fielded October 2008 at Fort Jackson, SC, all indications are that GFEBS is performing as expected. Not only will it enhance the capabilities of the FM community, "Commanders will...be able to get a clear picture of what it really costs to perform a mission or provide a capability and will, therefore, make better use of resources."<sup>63</sup>

People must be empowered to lead change and they must have the commitment and support of the highest leader. "People in a subordinate position are very ill advised to embark on a major undertaking without their Chief's commitment."<sup>64</sup> Army military and civilian leaders have the direct authority to deal with troublesome managers. This authority is not only embedded within our *supervisory* structure, it is part of the military culture; leaders have the power to take care of these problems. But they need the support and loyalty of their bosses, who should not override actions unless absolutely necessary. So traditionally, empowerment within the Army has not been a significant challenge. Army personnel are sufficiently empowered to adapt a cost-management culture. However, even with empowered leaders and people, progress toward cultural change must be visible or this effort will lose momentum and leaders will focus their energies on other organizational and cultural issues.

#### "Generating Short-Term Wins" and "Consolidating Gains"

Many top corporate leaders believe that a common characteristic of successful organizational change is to "identify, execute, and publicly celebrate early wins."<sup>65</sup> Leaders, managers, and the employees must see benefits in their efforts both, individually and for the organization as a whole. Short-term wins are important in keeping the people focused on the transformation. As in a football game, first downs, touchdowns, field goals, etc. are short-term gains in the overall game. Regarding

change within a cost management culture, leaders must see gains along the transition route in order to maintain interest, motivate people, and generate ideas to fine-tune the vision and strategy. The Change Champion must reward coalition leaders and the workforce with incentives like commendations, cash awards, positive feedback, job security, opportunities for promotion, public praise for achievements, or a simple pat on the back. For senior organizational leaders, short-term gains could include immediate cost savings on supplies and services. Typically, when organizations save money, leaders up the chain of command pull those funds back to subsidize other under-funded projects. Sometimes this transfer includes less worthy pet projects. This is a tragically counter-productive practice: Leaders implement procedures that make effective and efficient use of fiscal resources (cost savings) and then reallocate those salvaged funds to less responsible projects and managers. The Army must allow organizations to retain their savings and empower them to apply those funds towards other business requirements and perhaps bonus incentives to encourage innovation and initiative. Furthermore, consistent, visible short-term gains cultivate optimism regarding change and tend to isolate or convert naysayers. “A good short-term gain must be visible, unambiguous, and must clearly relate to the change effort.”<sup>66</sup> Additionally, Kotter notes the contributions of short-term wins to greater momentum for change: “The role of short-term wins—they provide evidence that sacrifices are worth it; reward change agents with a pat on the back; help fine-tune vision and strategies; undermine cynics and self-serving resisters; keep bosses on board; and, build momentum. The process of producing short-term wins can help test a vision against concrete conditions.”<sup>67</sup> When people feel like they belong to the cause and are rewarded for their hard work, come to



embody the transformation. Then they are more likely to contribute new and innovative ideas to help perfect the vision and strategy. The leadership and change coalition must harvest these ideas and implement them as is feasible. Those who generate more alternatives that are feasible should be empowered to manage those modifications and provided additional resources to implement them. There is no published empirical evidence that demonstrates short-term gains within the Army's cost-management transformation. Senior leaders and coalition members must be open to innovation and plan accordingly. Empowering Army people to promote good ideas for change and rewarding them leads to greater cultural changes and ultimately anchors those values into the cultural norm.

#### "Anchoring New Approaches in the Culture"

Anchoring change into cultural norms is an extremely difficult task. If an organization follows Kotter's program of change, the anchoring should naturally follow and contribute to an enduring tradition. Within a large organization like the Army, a major cultural change like transforming to a cost-management mindset will take a long time. Considering the current political environment, the Global War on Terrorism, impacts of globalization, and the current economic situation, improvements in managing the Army's precious financial resources are becoming extremely important. So transforming to a cost-management culture is a good start. However, what will that look like in the end? How will we know when cost-management is anchored into our culture? Nelson Ford says it best: "In a cost management culture, all leaders and managers will incorporate cost considerations into their decision making and day-to-day management."<sup>68</sup> Although his observation is more bureaucratic than visionary, it does

provide insight as to what the Army needs to accomplish—its ends. It may sound simple, but we have a long road to haul and many barriers to overcome. To achieve permanent victory, we must anchor this cultural change through the persistent professional development of our leaders. We must train our young and upcoming leaders to be cost conscious. We must develop innovative, enduring programs that reward success, rehabilitate failures, and stimulates ideas and discussion. Finally, with strong support from the most senior Army leaders, a clear vision and strategy, and a strong coalition to help us get there, we will achieve success in transforming the Army to a cost-management culture. “Anchoring change into culture comes last, not first, it depends on results, it requires a lot of talk, it may involve turnover, and it makes decisions on succession crucial.”<sup>69</sup>

## Conclusion

“Do I care how much something costs—if my budget fully funds the requirement regardless of how much it costs?” “Get more resources or get someone else to pay!”<sup>70</sup> “If you want to cut costs, I will just cut your budget.” Many of us have heard such comments. We have probably made these types of statements ourselves. But they are not merely comments; they are an expression of our inherent belief in our entitlement culture. However, there are many competing demands for the nation’s treasure to meet the needs of its people (Figure 3).

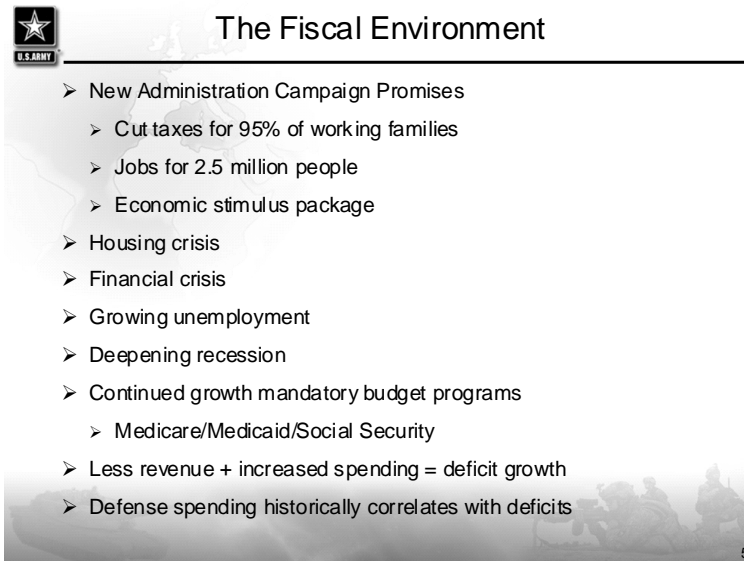


Figure 3. The Fiscal Environment<sup>71</sup>

These demands alone should prompt us to consider the Army's spending practices and take a closer look at managing the Army's costs. The Army senior leadership appears to understand this. Consider Nelson Ford's recent observations:

My goal is to make effective, efficient use of money as a weapon in support of building Army capabilities to serve the nation now and in a period of persistent conflict. I have three priorities: understanding the cost of the Army as a "going concern," strengthening financial controls, and migrating core activity back into the base budget. These priorities can be achieved against the backdrop of a cost culture throughout the Army. Implementation of a cost culture depends on achieving three conditions: getting senior leadership engagement, building robust analytical toolsets, and bringing greater discipline to our resource decision-making processes. If we are successful, Army resource managers will serve Army leaders and the American public well.<sup>72</sup>

Undersecretary Ford clearly articulates his goals and priorities. But he does not address cultural change. Further, the Army currently has no clear path or construct to nurture this change. But several informed observers have alluded to the fact that culture needs to change first. "A good rule of thumb: Whenever you hear of a major restructuring, reengineering, or strategic redirection in which step 1 is 'changing the culture,' you

should be concerned that it might be going down the wrong path.”<sup>73</sup> Are we going down the right path? Have we adopted a logical, integrated approach? Changing a culture requires time, commitment, patience, and an integrated, systematic approach, like that provided by John Kotter. The Army is well known for its planning capabilities and needs to use its capability to plan for the future to transform into a cost-management culture. Give proper emphasis and support by the Army senior leadership, a clear, well-communicated vision and strategy, and effective and efficient systems and processes, we can transform to a cost-management culture to achieve victory in the cost war. This victory is critical to the success of our armed forces now and in the future to carry out its mission to defend this nation and its people.

## Endnotes

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